

24 September 2020

Eyeopener

Still poor market mood

Mixed message from flash PMIs
Zloty under pressure, EURPLN above 4.50 again
Polish bonds lose, 10Y yields rise to 1.36%
Today German IFO index, new home sales in the US

On Wednesday the flash September PMIs started showing up, with data released among others in Japan (still above 50), Australia (improvement), UK (drop from a high level), euro zone, Germany, France and USA. In the euro zone and in the US there was apparent divergence between manufacturing indicators (which kept rising) and services (which fell m/m). It was reflected by the behaviour of stock market indices, as in the US industrial companies were rising and tech stocks were declining. European equity indices rose slightly, but ended the day well below daily highs, in the USA stock prices fell significantly; EM currencies were also under pressure.

September consumer confidence has not changed much m/m, after a slight deterioration in August and swift increases in the previous 3 months. Many of the contributing parts have already stabilized at the levels which are lower than before the pandemic (e.g. ones to forecast unemployment, assessments of the economic outlook etc) but not at a depressed levels (during the 2012-2013 slowdown, the sentiment was much worse). It is worth noting a significant decline in the assessment of the current financial situation, however its potential impact on the consumption is balanced by further material improvement in expectations of big expenditures (it is the only factor contributing to consumer confidence which kept steadily improving since May). Stabilization of the sentiment is also visible in the GUS surveys which were made post pandemic: after August increase in fears about health of Polish citizens there is no sign of it in September. Exactly 22.5% of surveyed reckons their jobs are at risk due to pandemic. Swift decline of August fears is a good sign for consumption. On the other hand one has to bear in mind that wages will keep declining which will weaken the consumption.

After August, **the central budget** showed a deficit of PLN13.3bn after -PLN16.3bn in July (deficit fell for the second month in a row). The spending side is still affected by effects of shift in major positions away from the central budget (e.g. subsidy to Social Security fell by 27.6% y/y in August). The revenue side surprised to the upside, like in July, and mostly thanks to VAT, which improved by 19% y/y (9.6% y/y earlier) which in our view is due to two factors: economic rebound and lower possibilities of accelerated tax returns. CIT, after having risen by over 20% y/y now fell by -17.8% y/y in August. PIT revenues are still in the negative territory (-2.9% y/y).

In August the **number of employees** in the enterprise sector fell by 3k and this was the sixth downward month in a row. The decline was visible mostly in industry and trade, while administrative and supporting activities saw an increase. We are expecting further decline of this measure. Employment (number of full-time jobs) is likely to go up further, but its upward potential is running out.

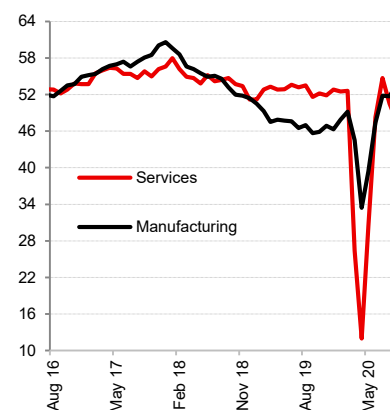
EURUSD declined yesterday for the third day in a row. (in total by 1.7% already) and has broken the support at 1.17, which constrained its downside potential since the beginning of August. This opens the door for further USD appreciation in the short term.

EURPLN returned after a day to its upward move and rebounded from 4.48 to above 4.51. The drop of EURUSD and stock indexes are putting pressure on the zloty and this morning EURPLN is already above 4.52. The exchange rate may grow more, with c4.53 being the first level to watch.

The other CEE currencies also weakened. The day after the Hungarian central bank meeting, at which 2020 growth forecast was lowered, but no additional easing was delivered due to high inflation profile, EURHUF continued to rise (by 0.7% to 365.7) and this morning it is already above 366. Czech central bank did not change rates and EURCZK rebounded from 26.9 to almost 27.0. USDRUB rose above 77.0.

On the domestic interest rate market, the short end of the bond yield curve was relatively stable and only on the long end a rise of yields was recorded (10Y up by 4bp to 1.36%). BGK sold 10Y papers (FPC0630) for PLN4.2bn and 13Y (FPC0733) for PLN0.5bn. In total, BGK issued bonds worth PLN82.2bn out of the planned issuance of PLN100bn.

Euro zone PMI indexes



Source: HIS Markit, Santander

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FX market

Today's opening

EURPLN	4.5191	CZKPLN	0.1658
USDPLN	3.8767	HUFPLN*	1.2346
EURUSD	1.1657	RUBPLN	0.0504
CHFPLN	4.1976	NOKPLN	0.4068
GBPPLN	4.9261	DKKPLN	0.6070
USDCNY	6.8203	SEKPLN	0.4292

*for 100HUF

Last session in the FX market

9/23/2020

	min	max	open	close	fixing
EURPLN	4.478	4.515	4.483	4.510	4.495
USDPLN	3.826	3.871	3.838	3.862	3.840
EURUSD	1.166	1.172	1.168	1.168	-

Interest rate market 9/23/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0722 (2Y)	0.10	1
PS0425 (5Y)	0.67	1
DS1030 (10Y)	1.36	3

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.19	0.23	-0.52
2L	0.24	0.22	-0.49
3L	0.32	0.24	-0.48
4L	0.43	0.27	-0.46
5L	0.55	0.33	-0.43
8L	0.83	0.55	-0.32
10L	0.97	0.68	-0.23

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
T/N	0.09	0
SW	0.12	0
2W	0.17	0
1M	0.20	0
3M	0.22	0
6M	0.26	0
1Y	0.27	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.21	0
3x6	0.17	2
6x9	0.17	2
9x12	0.17	2
3x9	0.23	1
6x12	0.22	1

Measures of fiscal risk

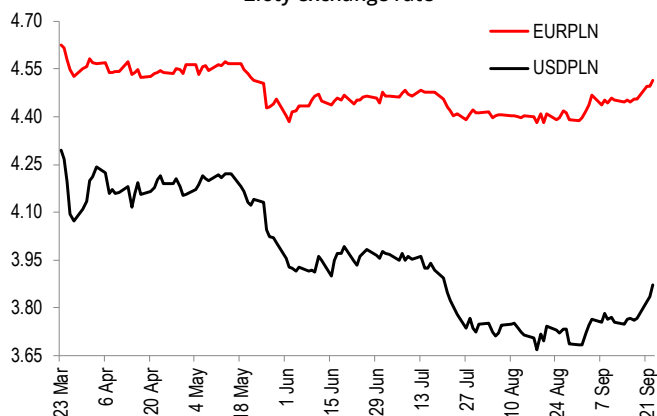
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	58	187
France	10	26
Hungary	63	308
Spain	53	73
Italy	91	135
Portugal	36	76
Ireland	19	36
Germany	9	-

* 10Y treasury bonds over 10Y Bunds

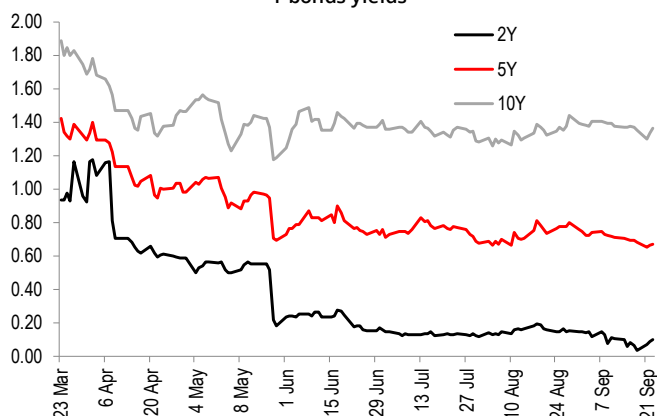
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

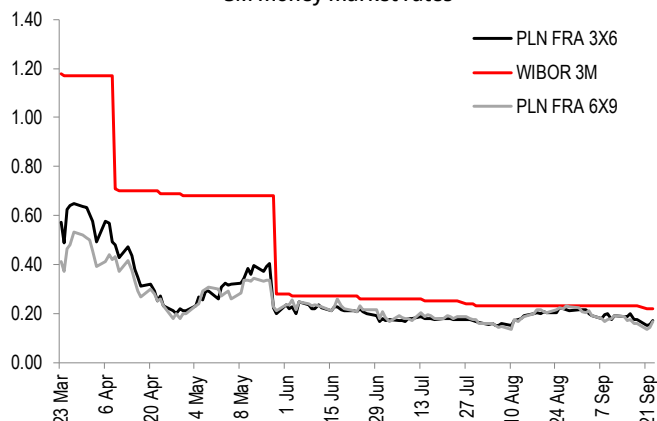
Zloty exchange rate



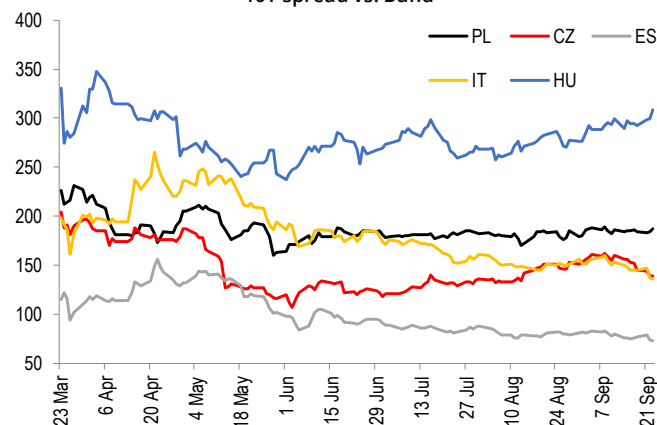
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (18 September)								
10:00	PL	Industrial output	Aug	% y/y	3.4	2.9	1.5	1.1
10:00	PL	PPI	Aug	% y/y	-1.0	-1.2	-1.2	-0.6
16:00	US	Flash Michigan index	Sep	pts	76.0	-	78,9	74.1
MONDAY (21 September)								
10:00	PL	Real retail sales	Aug	% y/y	2.3	2.7	0.5	3.0
10:00	PL	Construction and assembly output	Aug	% y/y	-9.3	-11.7	-12.1	-10.9
TUESDAY (22 September)								
14:00	PL	Money supply M3	Aug	% y/y	16.4	15.9	16.2	16.8
14:00	HU	Central bank decision		%	0.60	-	0.60	0.60
16:00	US	Existing home sales	Aug	% m/m	2.4	-	2.4	24.7
WEDNESDAY (23 September)								
9:30	GE	Flash PMI – manufacturing	Sep	pts	52.1	-	56.6	52.2
9:30	GE	Flash PMI – services	Sep	pts	52.9	-	49.1	52.5
10:00	EZ	Flash PMI – manufacturing	Sep	pts	51.5	-	53.7	51.7
10:00	EZ	Flash PMI – services	Sep	pts	50.6	-	47.6	50.5
10:00	PL	Unemployment rate	Aug	%	6.1	6.1	6.1	6.1
14:30	CZ	Central bank decision		%	0.25	-	0.25	0.25
THURSDAY (24 September)								
10:00	GE	Ifo index	Sep	pts	93.8	-		92.6
14:30	US	Initial jobless claims	week	k	880	-		901
16:00	US	New home sales	Aug	% m/m	-2.3	-		13.9
FRIDAY (25 September)								
	PL	Rating review by Fitch						
	HU	Rating review by Moody's						
14:30	US	Durable goods orders	Aug	% m/m	1.0	-		11.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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